

Benefits of SBA Lending: A Win-Win for Everyone

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**Strategic Banking Partners
Presents**

Benefits of SBA Lending: A Win-Win for Everyone

Presented by:

Mary Wamsley, President, Strategic Banking Partners

Overview

- Why Utilize SBA?
- How SBA Lending can benefit your Bank
- How to identify a potential SBA Borrower
- Selling the SBA loan to your Borrower
- How to overcome Borrower objections
- Selling the SBA loan to your Loan Committee or Board
- How to process and close SBA loans quickly and efficiently (it can be done!)

Why Use SBA??!??

- SBA's purpose is to help businesses with a reasonable chance of succeeding, access capital on reasonable terms.
- The guaranty can help mitigate the risk of a loan you wouldn't do conventionally for reasons like:
 - Collateral Shortage*, Longer repayment need, start-up, etc.
- SBA is not in the business of encouraging banks to make bad loans.
 - Remember: "SBA will not make a bad loan good, but will make a good loan possible".

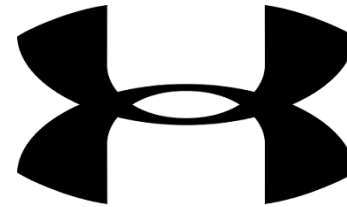


Bank Benefits - What's in it for Us?

- Increase Loan Portfolio
- Increase Profitability
- Broaden Customer Base and Build Loyalty
- Cross-sell Opportunities
- SBA Loans provide CRA benefits to participating lending institutions
- Decrease reserves and increase capital
- Generate Fee Income



Did you know...



UNDER ARMOUR



Bank Benefits – Example

	Conventional Loan	SBA Loan	SBA Loan Sold in Secondary Market
Loan Amount (Total \$)	\$500,000	\$2,000,000	\$2,000,000
Number of Loans	1	4	4
Guaranty Portion	-0-	75%	75%
Bank Amount Held	\$500,000	\$500,000	\$500,000
Fees			
Origination Fee	\$5,000	Not Allowed	Not Allowed
Interest Income (6%)	\$30,000	\$120,000	\$30,000
Premium (10%)	-0-	-0-	\$150,000
Servicing Fee Income	-0-	-0-	\$15,000
Total Income (Year 1)	\$35,000	\$120,000	\$195,000
Expenses			
Cost of Funds (1.5%)	\$7,500	\$30,000	\$7,500
SBA Servicing Fee (Colson)	N/A	\$8,250 (avg.)	-0-
Total Expenses (Year 1)	\$7,500	\$38,250	\$7,500
Net Revenue Year 1	\$27,500	\$81,750	\$187,500

Bank Benefits Table Explanation

- Bank Loan – \$500,000 loan amount
 - Number of loans for the SBA columns are 4 because with the 75% guaranty on a \$500,000 loan, you can make 4 of those totaling \$2,000,000 while only the guaranteed portion is counted against your capital.
- Fees
 - SBA does not allow any upfront fees to be charged to the Borrower by the Lender
 - Interest Income is based on an assumed rate of 6%
 - Cost of Funds are assumed at 1.5%

SBA allows you to be flexible

- Terms – SBA programs provide flexibility
 - Working Capital loans typically have a 10 year term
 - 25 year terms are possible for real estate transactions
 - What does a longer term mean for a borrower or lender?
- Equity
 - Down Payment and Equity requirements can be less than a standard conventional loan (range 5% - 25%)
 - Additional sources can be considered (like what?)
- Collateral
 - Lack of collateral is not a reason to decline a loan.
 - Let's repeat... a lack of collateral is not...?

How to Identify a Potential SBA Borrower

- Businesses in need of financial assistance to:
 - Fund Start-Up operations
 - Grow/Expand
 - Purchase an existing business
 - Buy out a partner
 - Purchase equipment
 - Fund receivables or inventory to assist with the cash flow cycle.
 - Refinance an “Evergreen” line of credit

Clues that should trigger “SBA” during the conversation

- Start-up business
- Currently short on cash to provide a normal down payment/equity injection
- Riskier industries (Gas Station, start-up, others?)
- Reliance on projections
- Lack of collateral to fully secure the loan
- Longer repayment term needed
- Loan amount too large for your lending institution

What's in it for them?

Selling the SBA Loan to your Borrower

- Reasonable Interest Rate (Variable or Fixed)
- Lower equity injection requirement
- Allows for longer loan terms which helps with:
- Has the borrower been able to obtain financing at reasonable terms?
- What about processing times, program fees, etc.?

Borrower Benefits - Example

Working Capital	Conventional Loan with 0% Guaranty	SBA Loan with 75% Guaranty
Borrower Loan Amount	\$750,000	\$750,000
Bank Origination Fee (1%)	\$7,500	Not allowed
SBA Packaging Fee Paid (avg.)	-0-	\$2,500
Closing Costs (UCC Searches, filing, etc.)	\$4,150	\$4,150
SBA Guaranty Fees: (3.5%)	-0-	\$19,687.50
Borrower's Closing Fees (these can be rolled into the loan)	\$11,650 (sum of Origination Fee & Closing Costs)	\$26,337.50 (sum of Packaging Fee, Closing Costs & Guaranty Fee)
Loan Term (assume 6% interest rate)	5 years	10 years
Borrower Principal Pmt. (avg. monthly amount for 1 st year)	\$11,050.00	\$4,704.00
Borrower Interest (avg. monthly amount for 1 st year)	\$3,449.00	\$3,622.00
Borrower Payment	\$14,499.00	\$8,327.00

Overcoming Borrower Objections

- A couple of the top objections from a Borrower:
 - SBA Loans are way too expensive!
 - The process takes way too long, I don't have time to waste!
- What now?
 - Fees – they really aren't that bad
 - No upfront OR ongoing fee for loans \$150,000 and below!
 - Guaranty fees can be financed with the loan (be sure you follow this 1 rule though...)
 - Process – SBA continues to improve their process to make it quick and efficient (seriously!)
 - Automated submission
 - Structured packages for quick and easy review
 - SBAOne

Selling the SBA Loan to your Credit Committee or Board

- “SBA Loans are too high of a risk for us!”
- Bank Benefits help mitigate the risks
 - Increase Income Opportunities
 - Mitigate risk
 - Expand your lending footprint, the types of industries you lend to
 - Produce additional avenues to help out the Borrower, they could be the next Google™!

Keys to Getting an Approval Quickly & Efficiently

- Eligibility
- Ensure the credit memo is complete with detail and includes all required information SBA needs (see SOP).
- Know what you need from the Borrower and ask for it upfront
- Keep your Borrower informed
- How do you know what to request from the Borrower?

Required Information

- Things to ask for at the beginning of the process:
 - Background of borrower and Principals
 - Detail of their loan request (how much and for what purpose)
 - Financial Information for the Borrower, Principals, Guarantors and Affiliates, as applicable.
 - Collateral Detail
 - Debt Schedule
 - Contracts and Agreements
 - Tax Transcripts – when are these required?
 - Corporate Documents – can't I wait until closing?

Keys to a Quick and Swift Closing

- Arm yourself with the right resources:
 - SBA Loan Authorization
 - SBA Experienced Attorney (why is this important?)
 - Third Party Vendor or Service Provider (what can they do?)
- Outline the responsibilities of each party involved, for example:
 - Closing Attorney to prepare documents
 - Borrower to obtain any last minute documents needed
 - Account officer or other designated party to assist with the closing process
- Keep your Borrower informed at all times!
- Maintain a checklist of required information and update it as items come in so it's always apparent what's left to get to closing.

The Voice of REASON

- RISK – SBA loans can carry more risk
 - SBA Loans have a higher default rate than conventional loans
 - SBA expects the Lender to follow the Agency's Standard Operating Procedures to maintain program integrity and partner compliance
 - Origination SOP: **SOP 50 10 5 (H)** (Current version)
 - Servicing SOP: **SOP 50 57**
 - Lenders are expected to take a first lien on all available collateral
 - Lender must complete detailed credit analysis of the borrower and request to ensure they are following “Prudent Lending Standards”.

Questions?



Thank You!

Contact Information

Presenters: Strategic Banking Partners, Inc.

- Mary Wamsley, President – 240.449.8948 or Mary.Wamsley@sbp-online.com

SBA WV District Office

- Richard Haney, Lender Relations Specialist
304.623.7449 or Richard.Haney@sba.gov
- Leo Lopez, Lender Relations Specialist
304.347.5220 or Leopoldo.Lopez@sba.gov